LIBRARY
SUPREME COURT. U. S.

Office - Supreme Court, U.S.
FILED
MAY 12 1958
JOHN T. FEY, Clerk

IN THE

Supreme Court of the United States

OCTOBER TERM, 1957.

No. 992

CONSOLIDATED PACKAGING MACHINERY CORPORATION,

Respondent,

vs.

RICHARD J. KELLY, EXECUTOR, ETC.,

Petitioner.

RICHARD J. KELLY, EXECUTOR, ETC.,

Petitioner,

vs.

INTERNATIONAL PAPER COMPANY,

Respondent.

PETITION FOR A WRIT OF CERTIORARI TO THE COURT OF APPEALS FOR THE SEVENTH CIRCUIT.

J. EDGAR KELLY,
111 W. Washington Street,
Chicago 2, Illinois,
Counsel for Petitioner.

WILFRED S. STONE,
134 S. La Salle Street,
Chicago 3, Illinois,
Of Counsel.

IN THE

Supreme Court of the United States

OCTOBER TERM, 1957.

No. .....

CONSOLIDATED PACKAGING MACHINERY CORPORATION,

Respondent,

vs.

RICHARD J. KELLY, EXECUTOR, ETC.,

Petitioner.

RICHARD J. KELLY, EXECUTOR, ETC.,

Petitioner,

vs.

INTERNATIONAL PAPER COMPANY,

Respondent.

PETITION FOR CERTIORARI.

To the Honorable Justices of the Supreme Court of the United States:

Richard J. Kelly, executor of the estate of Thomas C. Kelly, deceased, respectfully prays that a writ of certiorari issue to review the judgment of the Court of Appeals for the Seventh Circuit entered in the above entitled causes.

OPINION BELOW.

The opinion of the Court of Appeals for the Seventh Circuit is not reported as yet in the Federal Reporter, but does appear at 116 U. S. P. Q. 276, and is appended to this petition.

JURISDICTION.

The decision of the Court of Appeals for the Seventh Circuit is dated February 7, 1958, and petition for rehearing was denied April 8, 1958. Jurisdiction to review these cases is based upon Section 1254 (1) of the Judicial Code, as revised by the Act of June 25, 1948 (28 U. S. C. § 1254(1)).

QUESTION PRESENTED.

Does a clause in an exclusive patent license fixing the price on the licensed machine and a competitive machine manufactured by the licensee under another exclusive patent license render the license illegal under the Sherman Act (15 U. S. C. § 1), when both licensors share equally in the royalties from both machines and neither licensor manufactures?

STATUTE INVOLVED.

The section of the Sherman Act involved (15 U. S. C. § 1) reads, as follows:

> "Every contract, combination in the form of trust or otherwise, or conspiracy, in restraint of trade or commerce among the several States, or with foreign nations, is hereby declared to be illegal: *Provided*, That nothing contained in sections 1-7 of this title shall render illegal, contracts or agreements prescribing minimum prices for the resale of a commodity which bears, or the label or container of which bears, the trade mark, brand, or name of the producer or distributor of such commodity and which is in free and

open competition with commodities of the same general class produced or distributed by others, when contracts or agreements of that description are lawful as applied to intrastate transactions, under any statute, law, or public policy now or hereafter in effect in any State, Territory, or the District of Columbia in which such resale is to be made, or to which the commodity is to be transported for such resale, and the making of such contracts or agreements shall not be an unfair method of competition under section 45, as amended and supplemented, of this title: *Provided further*, That the preceding proviso shall not make lawful any contract or agreement, providing for the establishment or maintenance of minimum resale prices on any commodity herein involved, between manufacturers, or between producers, or between wholesalers, or between brokers, or between factors, or between retailers, or between persons, firms, or corporations in competition with each other. Every person who shall make any contract or engage in any combination or conspiracy declared by sections 1-7 of this title to be illegal shall be deemed guilty of a misdemeanor, and, on conviction thereof, shall be punished by fine not exceeding fifty thousand dollars, or by imprisonment not exceeding one year, or by both said punishments, in the discretion of the court. As amended July 7, 1955, c. 281, 69 Stat. 282."

STATEMENT OF THE CASE.

The facts material to the consideration of the question presented are these: Thomas C. Kelly, now deceased, was a sales representative for Consolidated Packaging Machinery Corporation, a manufacturer and seller of packaging machinery. Kelly designed, and on September 5, 1939 obtained United States Letters Patent number 2,172,572 on, a machine described as a "cottoner" (Cottoner or Kottoner), which inserted a wad of cotton into the neck of a bottle or jar.

On December 12, 1939, Kelly granted Consolidated an exclusive license under this patent. This license forebade Consolidated to manufacture any competing machine (App. 12070, p. 7, par. 4). From 1939 to June 7, 1944, Consolidated paid royalties of fifteen percent of the gross selling price to Kelly (App. 12070, p. 12, par. 14).

On November 4, 1943, Consolidated obtained the signature of one Eino E. Lakso to an exclusive patent license to manufacture and sell another type of cottoner (App. 12070, p. 21). Lakso was to receive a royalty of seven and a half percent of the gross selling price of all cottoners manufactured by Consolidated under the Lakso or any other patent (App. 12070, p. 20, par. 7). Consolidated could not sign this agreement in November of 1943 because of the restriction contained in its license with Kelly, which prohibited it from manufacturing another cottoner.

On June 3, 1944, Kelly granted a new, exclusive patent license to Consolidated, which superseded the agreement of December 12, 1939, and which permitted Consolidated to manufacture other cottoners. This license contained the following clauses:

> "6. It is further agreed that if the Licensee through members of its organization shall develop and invent any improvements of a patentable order on the Kelly type machine, the same shall be promptly disclosed to the Licensor and if patentable, a patent application or applications shall be made to protect the same, and such application shall be forthwith assigned to the Licensor and incorporated within the provisions of this agreement.
>
> "9. It is further agreed between the parties hereto that the minimum price per machine of either type shall be Two Thousand Five Hundred Dollars ($2,500.00) and that the maximum price on standard machines shall be Five Thousaad Dollars ($5,000.00) unless the machines embody special features of construction, and that such price range shall be maintained

unless changes therein are mutually agreed to in writing.

"12. It is further provided that in the event the Licensee shall fail to secure and maintain an exclusive license under the Lakso patents aforesaid, the royalty of 7½% to be paid to Kelly as herein provided for shall be increased to 15%, and that Licensee shall be obligated to confine its manufacture of Cottoner machines exclusively to machines of the Kelly type unless the Licensor shall otherwise agree to the modification of the provisions of this paragraph."

Consolidated signed this new license in Buffalo, New York, on June 7, 1944 (App. 12070, p. 13), and, thereafter, on June 13, 1944 signed the Lakso license (App. 12070, p. 21).

International Paper Company owned more than fifty percent of the stock of Consolidated, and, on February 20, 1946, placed its patent agent, Thomas E. Tate, on Consolidated's board of directors (App. 12071, p. 29).

On December 9, 1946, Consolidated advised Kelly that the license of June 7, 1944 was illegal and unenforceable. Kelly, on December 13, 1946, replied by letter, which stated in part:

"If our 1944 Agreement is unenforceable—and you say it is unenforceable—that is sufficient reason to get rid of it, and I think we should do so promptly by mutual consent."

(App. 12071, p. 47.)

This offer to cancel was submitted by Consolidated to Tate, of International, who recommended cancellation (App. 12071, p. 50). On April 17, 1947, Kelly demanded from Consolidated a list of the customers or prospective customers from whom Consolidated had received inquiries pertaining to his machine (App. 12071, p. 52). This demand was refused by Consolidated on April 21, 1947 (App.

12071, p. 54), and on April 28, 1947, Consolidated wrote to Kelly at the direction of Tate, of International, saying:

> "Insofar as we are concerned, we are prepared to go along on the exact same basis as we have in the past but when the time arrives that you feel you would like to take over the Kelly patents intact, we shall be glad to relinquish them as we have no future intentions of putting them to use inasmuch as we have further improved methods of accomplishing the same purpose. Consolidated then continued to pay royalties to Kelly until February 20, 1956."

Between the years 1947 and 1951, Consolidated, by an employee, filed three improvement patents which were concealed from Kelly (App. 12071, p. 43). These patents were discovered by the petitioner in December of 1955 after Kelly's death, and he, thereupon, made demand on Consolidated for the conveyance of these patents in accordance with paragraph 6 of the license of June 7, 1944. Consolidated replied to that demand, on February 20, 1956, by filing suit against petitioner, as the executor of the estate of Thomas C. Kelly, to declare the patent license of June 7, 1944 illegal, unenforceable, and in violation of the anti-trust laws. This complaint was filed under the Declaratory Judgment Act, 28 U. S. C. § 2201 and 2202.

Petitioner moved for summary judgment under Rule 56 of the Federal Rules of Civil Procedure, there being no genuine issue as to any material fact. Consolidated filed a countermotion for summary judgment; and the District Court denied petitioner's motion and granted Consolidated's motion. On appeal, this case became appeal number 12070.

On February 21, 1956, petitioner filed suit against International for damages for illegally compelling Consolidated to breach its license of June 7, 1944 with Thomas C.

Kelly and for damages for illegally creating a monopoly, in violation of the antitrust laws (15 U. S. C. § 2 and 15).

International filed a motion for summary judgment, and the District Court granted that motion for the reason that it had determined the license of June 7, 1944 to be illegal in the case filed by Consolidated. On appeal, this case became appeal number 12071.

From those judgments petitioner appealed, and the Court of Appeals for the Seventh Circuit affirmed the District Court in a single opinion on the ground that Kelly's license illegally fixed the price on Lakso's machines.

Respondents, Consolidated Packaging Machinery Corporation and International Paper Company, are corporations organized under the laws of the State of New York, and petitioner is a resident of the State of Illinois. These suits were, therefore, filed in the Federal Court because of diversity of citizenship (28 U. S. C. § 1332).

REASONS FOR GRANTING THE WRIT.

The Court of Appeals for the Seventh Circuit has decided an important question of federal law which has not been, but should be, settled by this court. By its decision, the Court of Appeals for the Seventh Circuit has extended Section 1 of the Sherman Act (15 U. S. C. § 1) to make illegal an exclusive patent license between a licensor and his licensee when these parties are not in competition with each other. The effect is to render illegal any exclusive patent license granted by a non-manufacturing licensor to a manufacturing licensee, in which the licensor seeks to protect his royalties by providing that the licensee must sell competing products at the same price as the licensed product.

Section 1 of the Sherman Act (15 U. S. C. § 1) was

cited by the Court of Appeals as the law which rendered the license agreement herein questioned illegal. This law invalidates only a contract in restraint of trade or commerce. "Restraint of trade", as used in this act, means the restraining of competition; and in the present case, there was no restraint because Kelly had deprived himself of the right to manufacture in competition with his licensee. Lakso had, also, surrendered his right to manufacture his machine. Consolidated, therefore, controlled all rights under the patents owned by Kelly and Lakso. It was only in competition with other machinery manufacturers, and this competition was in no way affected by either the Kelly or Lakso licenses.

The word "price" is not in the original Sherman Act, but was added by provisos in the law of August 17, 1937. These provisos made it illegal for persons, firms, or corporations in competition with each other to agree to fix resale prices.

The license in question here did not fix resale prices, nor was it a contract between parties in competition with each other. The prices fixed in the license of June 7, 1944 were not designed to restrain competition but, rather, to protect the licensor. Kelly, as well as Lakso, was assured that royalties would be paid to them upon a fair and reasonable price. The Court of Appeals for the Seventh Circuit said that Kelly had the right to do this as to the machine covered by his patent, but not as to the Lakso machine.

So long as it was legal for Kelly to receive royalties on the Lakso machine, and for Lakso to receive royalties on the Kelly machine, the licensee did not violate Section 1 of the Sherman Act by agreeing to a maximum and minimum price. Such a clause in exclusive licenses does not restrain trade or competition within Section 1 of the Sherman Act.

CONCLUSION.

For the reasons stated, it is respectfully submitted that this petition should be granted.

J. Edgar Kelly,
111 W. Washington Street,
Chicago 2, Illinois,
Counsel for Petitioner.

Wilfred S. Stone,
134 S. La Salle Street,
Chicago 3, Illinois,
Of Counsel.

APPENDIX.

IN THE UNITED STATES COURT OF APPEALS
For the Seventh Circuit.

September Term and Session, 1957.

No. 12070
CONSOLIDATED PACKAGING MACHINERY CORPORATION,
Plaintiff-Appellee,
v.
RICHARD J KELLY, Executor, etc.,
Defendant-Appellant.

No. 12071
RICHARD J. KELLY, Executor, etc.,
Plaintiff-Appellant,
v.
INTERNATIONAL PAPER COMPANY,
Defendant-Appellee.

Appeal from the United States District Court fo. the Northern District of Illinois, Eastern Division.

February 7, 1958.

Before FINNEGAN, SCHNACKENBERG and HASTINGS, *Circuit Judges.*

FINNEGAN, *Circuit Judge.* For many years Thomas C. Kelly, now deceased, was a sales representative of plaintiff, Consolidated Packaging Machinery Corporation, a manufacturer and seller of packaging machinery Kelly designed, and on September 5, 1939 obtained United States Letters Patent No. 2,171,572 on a machine described as a cottoner (Cottoner or Kottoner) which inserted a wad of cotton into the neck of a bottle or jar. Subsequently plaintiff became the exclusive licensee of Kelly, as licensor,

under an agreement dated December 12, 1939. For the right to manufacture and sell machines under Kelly's patent, plaintiff agreed, inter alia, that it would not manufacture and sell any other cottoners and would pay Kelly royalties on the gross selling price of such machines. During the period 1939 to 1944 plaintiff manufactured, sold cottoners and paid Kelly royalties.

On June 13, 1944, the plaintiff Consolidated, entered into an agreement with Eino E. Lakso, owner of Lakso U. S. patents Nos. 2,269,722 and 2,304,932 for methods and apparatus for inserting packing in containers. Under this contract Lakso granted Consolidated an exclusive, royalty-bearing, non-transferable license, for those two patents.

This lawsuit pivots on several clauses, reprinted below, contained in a superseding contract by and between Consolidated and Kelly who signed it on June 3, 1944.

> "9. It is further agreed between the parties hereto that the minimum price per machine of either type shall be Two Thousand Five Hundred Dollars ($2,500.00) and that the maximum price on standard machines shall be Five Thousand ($5,000.00) unless the machines embody special features of construction, and that such price range shall be maintained unless changes therein are mutually agreed to in writing."
>
> "12. It is further provided that in the event the Licensee shall fail to secure and maintain an exclusive license under the Lakso patents aforesaid, the royalty of 7½% to be paid to Kelly as herein provided for shall be increased to 15%, and that Licensee shall be obligated to confine its manufacture of Cottoner machines exclusively to machines of the Kelly type unless the Licensor shall otherwise agree to the modification of the provisions of this paragraph."

In 1946 plaintiff advised Kelly that the June 3, 1944 agreement was illegal and plaintiff ignored Kelly's offer of cancellation. Consolidated performed under that con-

tract from June 3, 1944 to February 20, 1956 when plaintiff filed its complaint for a declaratory judgment in the district court. Thomas C. Kelly died in June, 1955 and Richard J. Kelly, the executor of his estate, is the defendant in this appeal.

By its deceptively simple appearing complaint Consolidated asked the district judge to declare the license agreement of June 3, 1944 (Consolidated-Kelly) invalid, unenforceable and rescinded.

Each side filed a motion for summary judgment and submitted supporting affidavits. The relevant agreements, and some correspondence were all before the district judge when he entered the following final judgment from which defendant appealed.

> "1. The agreement of June 3, 1944, because of its price-fixing provision and because of its provision limiting the right of Consolidated to manufacture and sell machines competitive with the Kelly machine, is invalid and unenforceable.
>
> 2. Consolidated has no duty or obligation of any nature under said agreement of June 3, 1944.
>
> 3. The illegal portions of said agreement of June 3, 1944, are integrated with all other portions and are not severable therefrom.
>
> 4. Said agreement of June 3, 1944, is of no force and effect and is herewith terminated."

There are two prongs in the argument plaintiff sponsors in support of the judgment striking down the Consolidated-Kelly agreement of June 3, 1944. The first, and perhaps slightly more significant runs in this vein. Obviously Kelly is an utter stranger to all interests in the Lakso patents yet under clause 9, *supra*, the 1944 agreement, Kelly and Consolidated provided for a maximum and minimum price at which plaintiff may sell cottoners manufactured under the Kelly license and also those produced under Lakso patents. Plaintiff, then, is conceding

it has violated the "anti-trust laws" by joining with Kelly in fixing prices on Lakso products which were unpatented by Kelly, though he could legally set prices for products flowing from his patent, but no others. This contention assumes price fixing is embedded in clause 9 and that the Kelly-Lakso pricing is inseparable and permeating the total contract.

The statement of claim filed below is over-simplified, even under Rule 8, Federal Rules of Civil Procedure, 28 U. S. C., and instead of invoking Rule 12, defendant simply moved for summary judgment. Later plaintiff also made such a motion under Rule 56, Federal Rules of Civil Procedure. Of course allegations in plaintiff's complaint are admitted when not denied. Rule 8, *supra*. Neither a trial nor oral arguments were had below. Only an issue of law was presented for decision by the trial judge and the result reached by him was correct. We think the challenged license agreement an integrated price-fixing arrangement between the parties and in violation of the Sherman Act, 15 U. S. C. § 1. *United States* v. *Line Material Co.*, 333 U. S. 287 (1948).

No. 12071

Kelly's executor sued International Paper Company for allegedly inducing breach of the identical contract invalidated by the district judge, and discussed here. Granting International's motion for summary judgment in this companion case was correct. The critical contract was unenforceable. *Bailey* v. *Banister*, 200 F. 2d 683, 685 (10th Cir. 1952).

Nothing else in the briefs filed for Kelly's executor, as plaintiff-appellant, demands mention in this opinion for we found appellant's points are without merit.

Judgments in appeals numbered 12070 and 12071 are each respectively affirmed.